

FOR IMMEDIATE RELEASE
Monday, October 2, 2006

Governor Barbour's Special Session Call:
Remove Barrier to Coast Housing

JACKSON, Mississippi -- Governor Haley Barbour announced today he has called a Special Session of the Mississippi Legislature for Thursday to ask legislators to reduce the cost of construction of new homes on the Mississippi Gulf Coast.

The Governor said the Special Session will convene at noon on Thursday, October 5, 2006, and legislators will be asked to reduce the state's tax on modular homes as a means of reducing the cost of new homes for Coast families by \$4,000 to \$6,000 per home. The measure is the same he sought in a special legislative session in August; it unanimously passed the Senate, but was killed in the House Ways and Means Committee, when it was never brought up for a vote.

"The number one priority and challenge in Mississippi caused by Katrina is housing," Governor Barbour said. "We must act now to remove barriers to building housing on the Gulf Coast, and reducing the tax on modular homes is a necessary step toward that end."

"Rebuilding our housing stock is a massive undertaking. To rebuild quickly and efficiently, we must be innovative and creative and not just rely on pre-Katrina housing solutions," Governor Barbour said.

More than 240,000 units of housing were damaged by Katrina statewide, representing 23 percent of the state's occupied housing units. Nearly 80,000 units of housing suffered major or severe damage, or were destroyed, approximately 53,000 of which were in the three coastal counties.

Governor Barbour said due to labor supply constraints, the State must encourage alternatives to conventional, site-built, "stick-built" homes. One such alternative is modular housing, which under Mississippi law is taxed at 7 percent while manufactured housing is taxed at 3 percent.

“Modular homes” are often confused with “manufactured housing” (also referred to as mobile homes) since they are both “manufactured” in a plant. However, there are substantial differences between the two. Mobile homes are built to the HUD code, which is a national code governing the manufactured housing industry. Modular housing is built to comply with local building codes governing conventional construction, e.g. the International Residential Code; therefore, the construction of modular housing is virtually the same as a conventionally built home and qualifies for conventional mortgage financing.

What are modular homes?

A modular home is built in modules or sections which are transported to the site. A builder will normally install the foundation and the modules will be lifted in place and fixed to the foundation. Once the modules are installed at the foundation, the builder will complete the completion of the utilities and other finishes.

Modular homes vary in size and price. There are multi-million dollar custom modular homes, and there are modular homes designed for more affordable housing.

How does the current Mississippi tax law treat modular homes?

According to the Mississippi Tax Commission (MTC), Section 27-65-17 levies a tax at the rate of 7% on the sale of tangible personal property. This Section also provides reduced rates of tax for certain items, including mobile homes which are tax at the reduced rate of 3%.

The MTC taxes modular home sales at the regular retail rate of 7% since the statutes do not provide a lower rate of tax.

If a homeowner used conventional site-built housing methods, a 7% tax would be paid on the materials, but no sales tax would be paid on the labor. However, under the current tax law for modular homes, a 7% tax is owed on materials and labor.

How should Mississippi tax modular homes?

Modular homes should be taxed at the same 3% tax rate that currently exists for manufactured housing. This would also more closely match the taxability of a conventional site-built home.

What is the revenue impact to the state?

Since there is very little modular housing currently in Mississippi, there will be a very minimal impact on state revenue. The Mississippi Tax Commission reports that the State collected \$5.5 million from the sale of manufactured housing in FY 06, but it can not identify existing revenue figures for modular homes. No one estimates the state has ever collected as much as \$1 million in a year in state sales taxes on modular homes.

However, by removing a financial barrier to modular housing and given the large unmet demand for housing, there is no doubt that more modular houses will be purchased and, therefore, more tax revenue will be generated than in any previous year.

###